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C O N F I D E N T I A L SECTION 01 OF 02 SANTO DOMINGO 005480

SIPDIS

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TREASURY FOR OASIA-LAMONICA, TOLOUI, LEE

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SUBJECT: IMF VISIT TO DOMINICAN REPUBLIC REVEALS LITTLE
PROGRESS

Classified By: DCM Lisa Kubiske. Reason: 1.4 (b) and (d).

1. (C) Summary: An IMF team led by Steven Phillips (protect) to Santo Domingo this week reported that the Dominican Republic continued to face an acute crisis. The GODR had made only limited progress toward an integrated plan that could serve as the basis for resuming its IMF program. The team reported scant evidence that the Dominicans had taken adequate concrete steps that would allow negotiations to begin. There was a feeling that some members of the Dominican economic team are more open to IMF advice than others. Despite the disappointingly slow pace, Phillips did see some progress this week, with the government narrowing its focus in some areas, and signals that conversations on the margins of the Fund/Bank meetings October 2-3 could be important for the Fund's decision on an appropriate strategy for the next (revised) IMF program for the Dominican Republic. End summary.

Slow progress

2. (C) The visit to Santo Domingo of an IMF technical team led by Steven Phillips, September 22-30, was one more in a series that started early in the year with the goal of reaching a plan that could allow talks aimed at resuming an IMF program. Despite the many visits (most recently one in August), Phillips (protect) said that there were still not enough concrete details coming from the Dominican side to begin formal negotiations. This was a disappointment after what had seemed to be rapid progress early this summer just following elections. The Fund indicated that up to now, it has been trying to avoid dictating a detailed plan, preferring rather to give guidance to the government and letting the government choose its own path. The slow pace, however, is leading Phillips to consider being more forceful with his suggestions.

Fiscal gap still hard to fill

3. (C) Phillips said that previously, two thirds of the 2004 gap could have been filled by the Paris Club, and the remaining third by the private sector. The gap is now several times greater and continues into 2005, for many reasons, including some external causes. Fiscal slippage and higher oil prices have played a role. The fiscal package actually passed, he noted, brings in a full percentage point less (i.e. about 1.7 percent of GDP) than the package originally submitted to the Dominican Congress in July. Arrears are growing. Additional factors are the slower disbursement of IFI funds and the discovery last spring of unreported debt. All in all, bridging the gap remains a problem. The Dominican team has put little on paper about how to resolve these issues. There are still no numbers in the Dominican plan that add up and the ideas that the government has presented lack specificity. Nonetheless, there was some progress this week, especially by the Dominican team's developing a matrix of policies and measures to reduce expenditures. Again, however, the matrix provided a rough sketch of a plan with little specific information. Phillips feels that more progress can be made with sustained international attention, and that, optimistically, putting together a program by the end of October is possible.

Paris Club - No information

4. (C) The Dominicans sent a team to New York last week to talk with private banks about debt restructuring, but the government has not yet chosen any of the options presented during the visit (or it perhaps was unwilling to share this information with the Fund). As for the October 1 obligatory report to the Paris Club, the IMF had no information on what the government plans to present.

Bank Debt

5. (C) In the banking sector, the IMF team's emphasis is on

coming up with a timetable and assessing weaknesses, a process that has also apparently lost pace over the summer. Phillips noted that the timetable for implementing banking reform had slowed. Phillips expressed concern that in the face of growing domestic and international arrears, the government's ability to be firm with the banks would be undermined by its continuing need for bank loans.

16. (C) While the Central Bank's announcement on September 29 to extend maturities on certificates of deposit and index them to inflation is fine in principle, IMF representatives received no information beyond what was said in the press release. They saw this as a sign that some members of government are not yet fully comfortable with working openly with IMF.

Still in Crisis

17. (C) On the positive side, the IMF team found no ideological opposition with planning, just technical issues. There were signs, Phillips said, of greater integration. Dominicans made some progress this week, as noted above, and the peso's rise and the decline in inflation are both positive signs, for now. Unfortunately, the Dominican Republic is still in crisis, and it is the single acute crisis case in the hemisphere, "if not in the world," commented IMF resrep Ousmene Mandeng. Implementation of structural measures in banking slowed during the summer and the banking picture remains one of liquidity strength but capitalization weakness. The improving strength of the peso and drop in inflation seem at odds with the picture above and are threatened by the growing arrears.

18. (C) The IMF team expressed mild concern that some of the Dominican team members are not able to coordinate or work together effectively. IMF noted a lack of both vertical and horizontal organization and some "really sharp differences and rivalries."

Ahead

19. (C) Under the best of circumstances, Phillips said, predicting the timetable for program negotiations is difficult. With a constant IMF presence, it might be possible to conclude a revised agreement in October. The conversations in Washington on the margins of the October 2-3 Bank/Fund meetings could well be important for deciding the Fund's strategy for a revised program (i.e., how strong a program, how front-loaded, what pre-conditions).
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